

CITY OF HIGHLAND, ILLINOIS
FY 2010 Audit - Management's Discussion & Analysis

CITY OF HIGHLAND, ILLINOIS
Council/Manager - Form of Government
April 30, 2010

MAYOR

Joseph Michaelis

CITY MANAGER

Mark Latham

CITY COUNCIL MEMBERS

Chris Bardill

Peg Bellm

Vacant

Ruth Zobrist

CITY CLERK

Barbara Bellm

CITY TREASURER

Dennis Foehner

DEPARTMENT DIRECTORS

Daniel Cook

Sharon Rusteberg

Lisa Schoeck

Angela Kim

Mark Rosen

Terry Bell

Joe Gillespie

Electric & Fiber

Finance

Human Resources

Library

Parks & Recreation

Police Chief

Public Works

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This section of the City of Highland's annual financial report presents discussion and analysis from City management regarding the City's financial performance during the fiscal year that ended on April 30, 2010 with comparative information for the fiscal year ended April 30, 2009.

FINANCIAL HIGHLIGHTS

- Total assets exceeded liabilities at the close of the fiscal year by approximately \$63.8 million (net assets). Of this amount, the unrestricted amount of \$19.8 million may be used to meet the City's ongoing obligations to citizens and creditors.
- City-wide net assets increased 2% during the fiscal year. An increase of 3.1% was realized in governmental activities while a .2% increase occurred within enterprise activities. The increase was realized despite an overall increase in City expenditures of 4.7%.
- The City of Highland is compliant with the GASB 34 reporting model, which requires accounting for depreciation of fixed assets within governmental activities. Shown within the Statement of Net Assets, the fixed assets year-end balance for fiscal year 2010 is \$56.2 million (net of depreciation). This is comprised of \$27.4 million for governmental activities plus \$28.8 million for business-type activities. The 2% increase in fixed assets is largely represented by the City's investment in street and fiber projects.
- Receipts of the traditional sales tax, shown within the "Intergovernmental" revenue line item, decreased .7% during FY 2010. This represents the second decrease in sales tax during the past 10 years. According to City estimates, the number of retailers in Highland has remained the same. The decrease in sales tax growth is indicative of the economic climate across the country. The traditional sales tax revenue accounts for 29% of all general corporate revenues.
- FY 2010 was the third full year of receipts from the 2006 Non-Home Rule Sales Tax Referendum. This 1% NHR sales tax was estimated to bring in an additional \$1.3 - \$1.5 million annually to the City for street projects. Receipts for the year equaled \$1.3 million.
- Building permit activity has slowed down, following the national economic downturn. Connection fee revenues were lower as well. The growth rate of the City's equalized assessed value (EAV), which is an important component in property tax calculations, is difficult to predict for the future.

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USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements.

- The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances.
- For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.
- The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole –

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**Reporting the City's Most Significant Funds -
Fund Financial Statements**

Some funds are required to be established by State law and bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes (such as the 2006 Electric Bonds for Infrastructure Improvements) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The City's three types of funds use different accounting approaches:

- *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow into and out of these funds and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliations within exhibits #4 and #6 of the "Basic Financial Statements" section.
- *Enterprise Funds* – Services for which the City charges customers for the full cost of the services it provides are generally reported in enterprise funds. These business-type activities, like the government-wide statements, provide both long- and short-term financial information. Business-type activities are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

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- *Fiduciary funds* – The City has fiduciary responsibility for other assets that – because of trust arrangements – can be used only for the trust beneficiaries. The City is responsible for ensuring the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

In the supplemental information section, the City has provided detailed schedules of revenues, expenditures, and changes in fund balances for three funds. In addition, detailed historical data can be found regarding tax levies, building permits, and property values. Information regarding principal taxpayers, overlapping debt, and miscellaneous statistics about the City of Highland are also included. The reports are intended to provide the user with information beyond the realm of the traditional auditing requirements.

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FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison between the activities for FY '10 and the activities for FY '09 under the GASB statement #34 model. The city-wide total for revenues increased \$.1 million and expenditures increased \$1.4 million compared to the previous fiscal year. In the case of both governmental and business-type activities, revenues exceeded expenditures for both fiscal years. The surplus is utilized by the City of Highland to meet the City's fiscal policy in relation to reserves for operations, maintenance, and capital projects.

Changes in the City of Highland's Activities
(in millions of dollars)

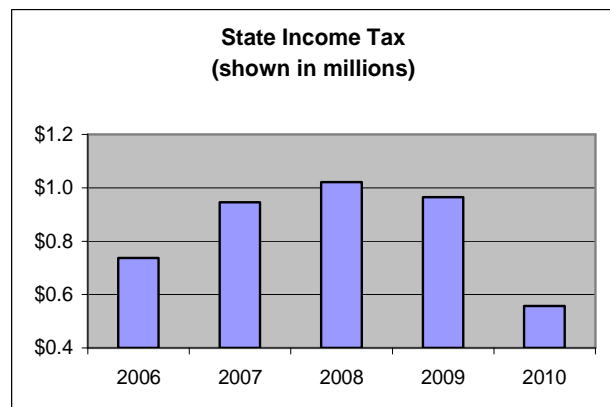
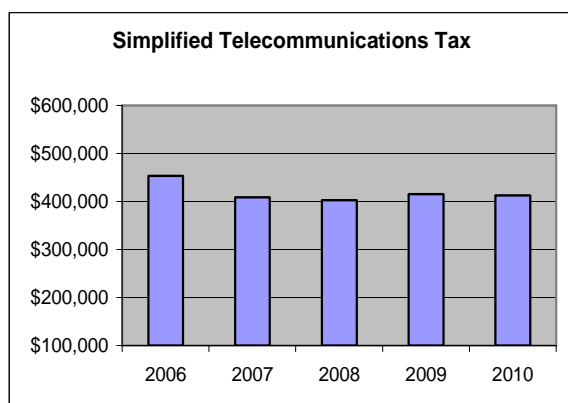
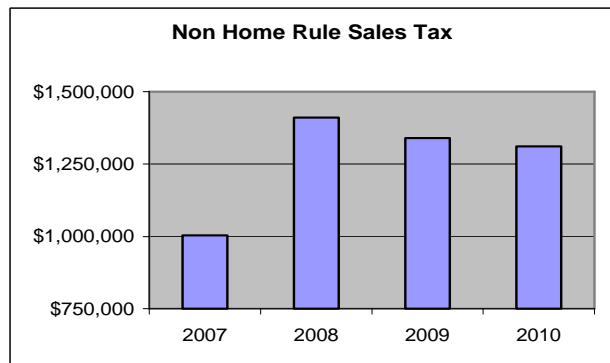
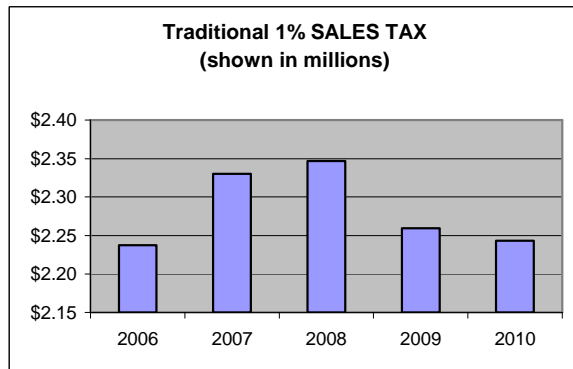
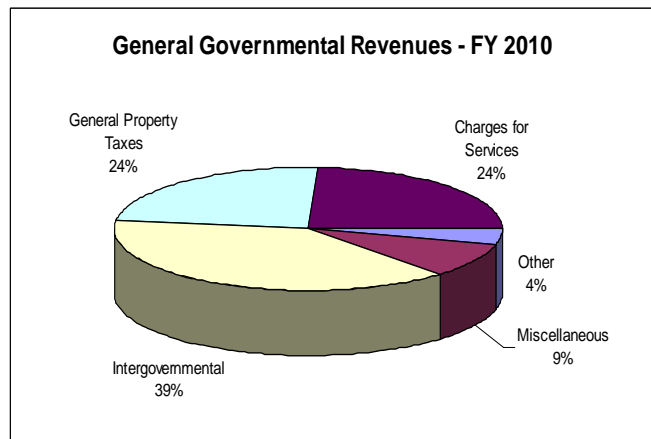
	Governmental Activities		Business-type Activities		Totals	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues						
Charges for Services	\$ 3.4	\$ 3.3	\$ 16.6	\$ 15.9	\$ 20.0	\$ 19.2
Operating Grants and Contributions	0.2	0.2			0.2	0.2
General Revenues						
Property Taxes, General Purposes	3.1	3.0			3.1	3.0
Property Taxes, Debt Service	-	-			0.0	0.0
Intergovernmental	5.1	5.6			5.1	5.6
Miscellaneous	1.0	1.3	0.5	0.5	1.5	1.8
Total Revenues	\$ 12.8	\$ 13.4	\$ 17.1	\$ 16.4	\$ 29.9	\$ 29.8
Expenditures						
General Government	\$ 1.3	\$ 1.3			\$ 1.3	\$ 1.3
Public Safety	4.2	4.1			4.2	4.1
Highways and Streets	2.8	2.6			2.8	2.6
Culture and Recreation	2.3	2.3			2.3	2.3
Economic Development	0.1	0.1			0.1	0.1
Employer's Cont. to Retirement Fund	0.6	0.6			0.6	0.6
Interest on Long-Term Debt	0.5	0.5			0.5	0.5
Electric			\$ 11.7	\$ 10.8	11.7	10.8
Water			2.4	2.3	2.4	2.3
Sewer			1.9	1.8	1.9	1.8
Solid Waste			1.0	1.0	1.0	1.0
Total Expenditures	\$ 11.8	\$ 11.5	\$ 17.0	\$ 15.9	\$ 28.8	\$ 27.4
Excess of Revenues Over Expenditures	\$ 1.0	\$ 1.9	\$ 0.1	\$ 0.5	\$ 1.1	\$ 2.4

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Governmental Activities

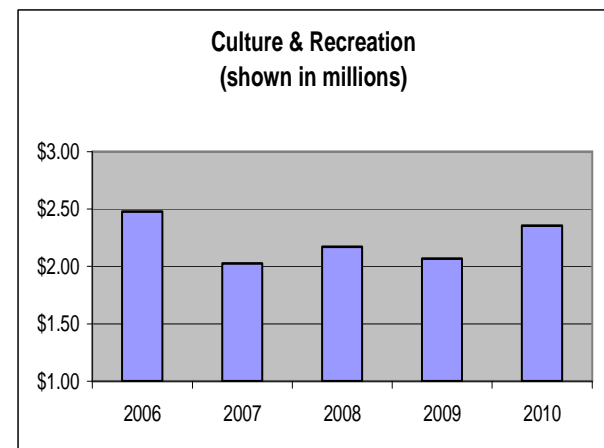
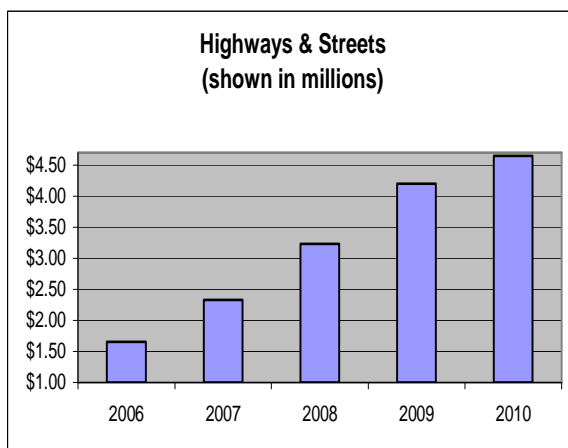
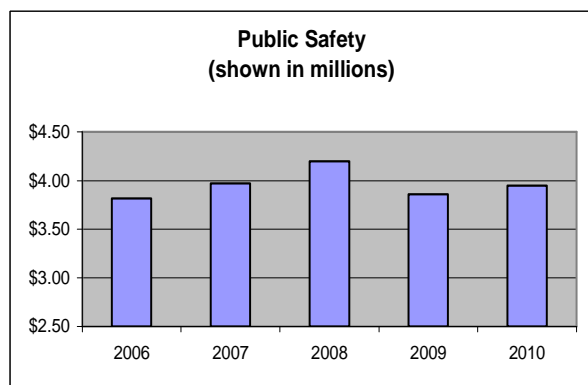
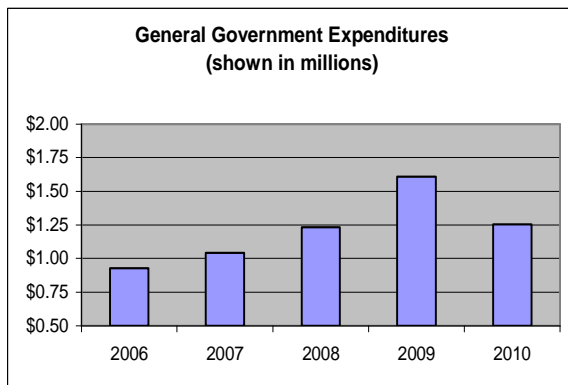
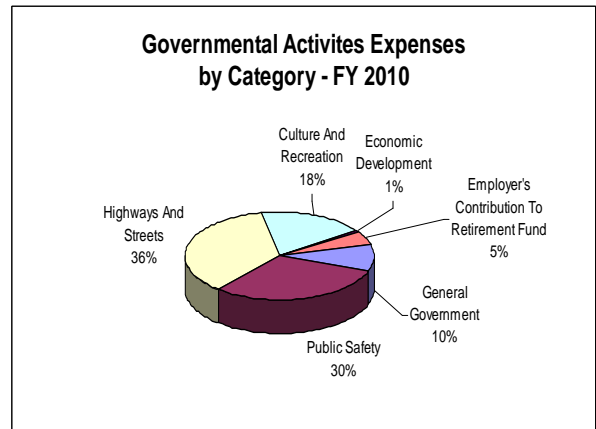
Governmental Activities include all funds except Business-Type Activities and the Police Pension Fiduciary Fund. Examples include the following: General Fund (which includes the Police Dept, Fire Dept, Building and Zoning, General Administration, and PW Admin / Streets Dept among others), Ambulance Fund, Parks and Recreation, and the various Library Funds.

Intergovernmental revenues include revenues due to the City of Highland that pass through the State of Illinois. These include, but are not limited to, sales tax, income tax, and the simplified telecommunications tax. Corporate replacement tax as well as fines and forfeitures are included within the "other" category. The "miscellaneous" category includes interest income. "Charges for Services" includes billings from the City's Ambulance service and user fees from Parks & Recreation.



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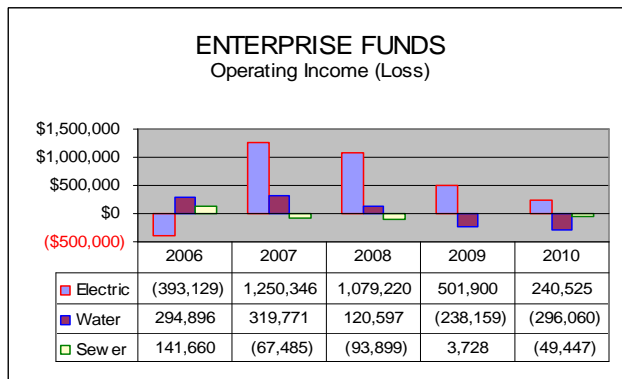
Expenditures of Governmental Activities are spread among a wide variety of functions. Among these are public safety functions of police, fire, and EMS. Also included are the activities of highways and streets as well as culture and recreation (parks & recreation / library). These areas are funded with the aforementioned revenues such as property taxes and intergovernmental revenues. The charts included on this page depict the fund financial statement amounts for the various functions.



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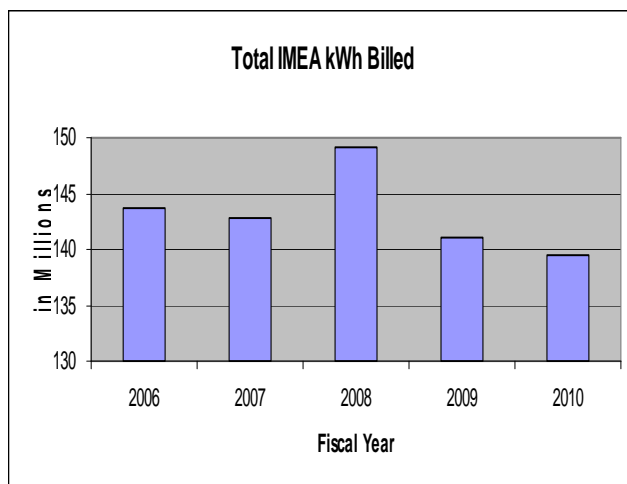
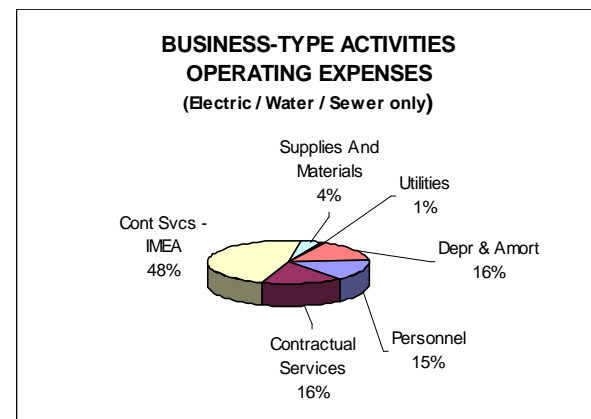
Business-Type Activities

Business-type activities include revenues and expenditures related to the Electric, Water, Sewer, and Solid Waste funds. Business-type activities do not receive property or intergovernmental taxes. Each enterprise fund operates as an independent entity, relying solely on user fees for operations.



Decreases in FY 2010 resulted from cooler temperatures and increased rainfall in the summer months of 2009 yielding lower electric and water consumption. The electric fund also includes some expenditures for installation of the new fiber infrastructure which will begin generating revenue the later part of FY 2011.

An increase in operating costs within the Water Fund of 4%, combined with only a 1.6% increase in revenue, led to an operating loss in this fund. This can be attributed to a decrease in gallons billed during Fiscal Year 2010 due to weather conditions. In addition, the economic slowdown meant a 43% reduction in connection fee revenue for the Water Fund and 23% for the Sewer Fund (40% for all enterprises).



For the Electric Fund, total operating revenues increased 5% during FY '10. Total operating expenditures increased 7.73%, primarily due to a 5% increase in the cost of power. This is mainly due to an increase in the rate charged to Highland by IMEA.

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STATUS OF CITY RESERVES

The governmental funds reported a *combined* fund balance of \$15.9 million. The recent bond issuance for street projects is reserved funds shown within the “Bldg Construction and Improvements” line. Those funds are designed to be spent on specific projects per the bond covenant, and as such are designed to be spent down. City departments contribute annually to the unreserved “capital projects” line per the City’s budgeting guidelines.

City of Highland
Statement of Governmental Fund Balances

	Fiscal Year 2010	Fiscal Year 2009	Percent Change
<u>Reserved Funds</u>			
Maintenance and Upkeep	\$ 695,336	\$ 652,920	6.50%
Bldg Construction and Improvements	5,303,566	7,816,925	-32.15%
<u>Unreserved Funds</u>			
General	2,789,835	2,714,742	2.77%
Special Revenue	1,578,559	1,464,001	7.82%
Capital Projects	4,362,335	3,847,784	13.37%
Debt Service	1,209,961	1,194,476	1.30%
Totals	\$ 15,939,592	\$ 17,690,848	-9.90%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2010, the City had \$56.2 million (net of depreciation) invested in a range of capital assets that include equipment, building and structures, and infrastructure. Infrastructure is valued based on the composite cost. The straight-line depreciation method is used, with a salvage value always being zero.

City of Highland's Capital Assets
(net of depreciation, in millions of dollars)

	Governmental Activities		Business-type Activities		Totals	
	Fiscal Year 2010	2009	Fiscal Year 2010	2009	2010	2009
Land	\$ 3.5	\$ 2.8	\$ 0.6	\$ 0.6	\$ 4.1	\$ 3.4
Construction in Progress	4.0	0.3	0.8	-	4.8	0.3
Bldgs & Improvements	6.2	5.9	6.7	7.5	12.9	13.4
Other Improvements	1.6	1.6	4.7	4.3	6.3	5.9
Equipment	0.7	0.9	2.1	2.3	2.8	3.2
Infrastructure	11.4	14.1			11.4	14.1
Lines			9.2	9.8	9.2	9.8
Interconnect			4.7	4.8	4.7	4.8
Totals	\$ 27.4	\$ 25.6	\$ 28.8	\$ 29.3	\$ 56.2	\$ 54.9

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Debt Administration

The City of Highland has no general obligation debt counting against its legal debt limit because the City does not require the use of property taxes for repayment of debt. Debt repayment is accomplished primarily with sales tax revenue and utility sales. The passage of the 2006 Non-Home Rule Sales Tax Referendum is a major reason for this accomplishment. The City of Highland's legal debt limit of \$16.3 million is now fully available upon approval of voter referendum approval. Total City debt per capita is approximately \$3,000.

City of Highland's Outstanding Debt
(in millions of dollars)

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Totals	
	2010	2009	2010	2009	2010	2009
Revenue Bonds	\$ 12.5	\$ 13.5	\$ 12.7	\$ 4.9	\$ 25.2	\$ 18.4
Notes Payable			\$ 3.3	\$ 3.7	\$ 3.3	\$ 3.7
Totals	\$ 12.5	\$ 13.5	\$ 16.0	\$ 8.6	\$ 28.5	\$ 22.1

CURRENT EVENTS AND NEXT YEAR'S BUDGET

The City of Highland has taken an aggressive approach towards managing the growth of the community. The following is a brief description of some of the actions taken in FY '10, with a brief look ahead into FY '11.

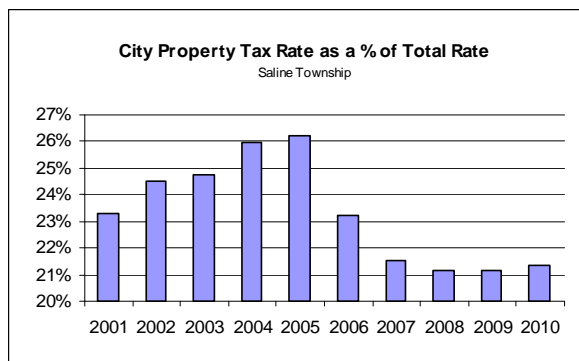
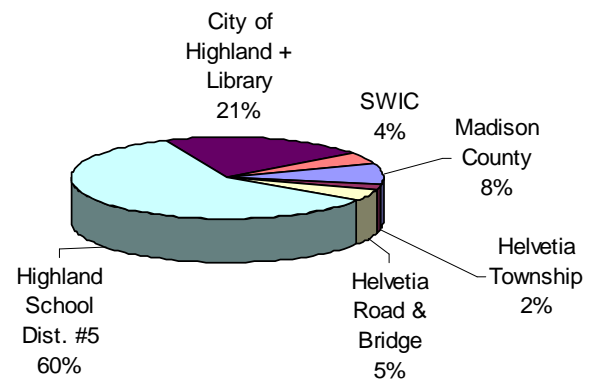
FY 2008 was the first full year of receipts from the Non-Home Rule Sales Tax Referendum (passed in March of 2006). This 1% increase in sales tax was estimated to bring in an additional \$1.3 - \$1.5 million annually to the City for street projects. Receipts for the year equaled \$1.3 million. 80% of the new revenue has been pledged to support new street construction projects. 20% of the revenue will be used towards the maintenance of existing streets and sidewalks. The City Council issued alternate revenue bonds against this new revenue stream during FY '07 in order to expedite the \$10 million in street projects forecasted in the next five years. Foremost of these projects is the "peripheral route project". The northwest quadrant of the route began construction towards the end of FY 2009. The Hemlock addition was completed last year and now the Koepfli Lane Extension is being constructed. Attempts for land acquisition in order for construction of the northeast quadrant to occur are almost complete at this time and a 2010 Street Bond is in the works in order to finance the purchase of land for that portion of the peripheral route. Other projects funded by the Non-Home Rule Sales Tax in process at this time include the Iberg Road Reconstruction which is estimated to be complete by the fall of 2010. The 20% portion is being used to resurface Main and Walnut Streets and to complete a test section to correct the uneven surface on Troxler Avenue.

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One additional major project, that is gaining ground as we move forward, is the Fiber to the Premise Project. Bonds were issued in February 2010 and a Headend Building was purchased in May 2010. Fiber has been installed along the main corridors to provide high speed (1 GB) voice, data, and video service to businesses and industries. In 2011, the high speed services will be offered to the residential areas, in phases. Employees are being hired in order to provide the highest level of customer service to our citizens.

Steps have been taken to improve daily operations and help the City become more efficient. The City uses aspects of various performance management tools such as Six Sigma and Baldrige Analysis for budgeting and trend analysis. Under the direction of the City Manager, various committees have been established to review policies and procedures and to take an active role in assisting the City with its management. For example, a Growth Management Committee, comprised of key city staff members, created a growth plan that accounts for the short and long-term needs for each department to ensure that adequate infrastructure and services are available concurrently with new development.

As of April 2010, the City's Equalized Assessed Value rose .02% to a total of \$188.9 million. This is the one of the smallest increases in recent history due to the declining economy and property values nationwide. The average growth rate of EAV during the past ten years has been 6.85%. The EAV is used in conjunction with the 2009 Property Tax Levy for the collection of property taxes during FY 2010-2011. The City of Highland's property tax rate for 2010 represents 21% of the total property tax rate in Helvetia Township (Saline Township is nearly identical).



The City's portion of the total property tax rate for Highland residents has remained relatively the same for the past four years. The total property tax rate for Highland residents increased by 2% due to the minimal increase in the EAV. This is the first rate increase in the past five years. The City strives to maintain its property tax rate at the lowest amount possible while providing the highest quality of service.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance, City of Highland, PO Box 218, Highland, IL 62249.

General information relating to the City of Highland may be found at www.highlandil.gov.